



BILLING CODE 8011-01p

**SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-96468; File No. SR-LCH SA-2022-007]**

**Self-Regulatory Organizations; LCH SA; Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 2, Relating to Providing Clearing Services for Additional Index and Single Name Credit Default Swaps**

December 8, 2022

**I. Introduction**

On August 29, 2022, Banque Centrale de Compensation, which conducts business under the name LCH SA (“LCH SA”), filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4,<sup>2</sup> a proposed rule change to provide clearing services for the iTraxx Asia ex Japan Index, the Markit CDX Emerging Markets (“CDX.EM”) Index and the single name credit default swaps (“CDS”) that comprise each index, as well as a list of additional sovereign single name CDS which do not constitute an index (together, the “New Products”). The proposed rule change was published for comment in the *Federal Register* on September 12, 2022.<sup>3</sup> On October 25, 2022, the Commission designated a longer period within which to take action on the

---

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change Relating to Providing Clearing Services for Additional Index and Single Name CDS, Exchange Act Release No. 95674 (Sep. 6, 2022); 87 FR 55872 (Sep. 12, 2022) (SR-LCH SA-2022-007) (“Notice”).

proposed rule change, until December 11, 2022.<sup>4</sup> The Commission did not receive comments regarding the proposed rule change. On December 2, 2022, LCH SA filed Amendment No. 1 to the proposed rule change. On December 7, 2022, LCH SA filed Amendment No. 2 to the proposed rule change, which replaced and superseded in their entirety both the original filing and Amendment No. 1.<sup>5</sup> The Commission is publishing this notice to solicit comments on Amendment No. 2 from interested persons and is approving the proposed rule change, as modified by Amendment No. 2 (hereinafter, “proposed rule change”), on an accelerated basis.

## II. Description of the Proposed Rule Change

To accommodate clearing of the New Products, the proposed rule change would amend (A) the CDS Clearing Supplement (the “Clearing Supplement”); (B) the Methodology Services Reference Guide: Credit Default Swap Margin Framework (“CDSClear Risk Methodology”); and (C) the CDS Default Fund Methodology (Guide Stress Testing) (“CDSClear Default Fund Methodology”).

Unrelated to clearing of the New Products, the proposed rule change also would make two other amendments to the Clearing Supplement and would make a correction to Section 2 of

---

<sup>4</sup> Self-Regulatory Organizations; LCH SA; Notice of Designation of Longer Period for Commission Action on Proposed Rule Relating To Providing Clearing Services for Additional Index and Single Name CDS, Exchange Act Release No. 96148 (Oct. 25, 2022); 87 FR 65629 (Oct. 31, 2022) (SR-LCH SA-2022-007).

<sup>5</sup> Amendment No. 2 amends confidential Exhibit 5C, LCH SA Methodology Services Reference Guide: CDS Margin Framework (V3.14), to correct a non-substantive formatting error. Amendment No. 2 also submits three exhibits to the proposed rule change, each as an Exhibit 3. In a separate correspondence that accompanied Amendment No. 2, LCH SA requested confidential treatment for these exhibits (together, “Confidential Exhibit 3”). Confidential Exhibit 3 reproduces certain information that LCH SA submitted to the Commission in support of the proposed rule change.

the LCH SA CDS Clearing Procedures (*Margin, NPV Payment and Price Alignment*) (the “CDS Clearing Procedures”).<sup>6</sup>

A. Clearing Supplement

The proposed rule change would amend certain defined terms in the Clearing Supplement and amend the Index Cleared Transaction Confirmation to accommodate clearing of the New Products. The proposed rule change also would amend Section 4, which relates to certain events affecting reference entities, and Section 6, which relates to physical settlement, to apply to the New Products.

With respect to defined terms, the proposed amendments would take into account the New Products. For example, the proposed rule change would revise the definitions of “Compression Cut-off Date” and “Novation Cut-off Date” to include two additional credit events. These credit events are the “Obligation Acceleration Credit Event” and the “Repudiation/Moratorium Credit Event.” While both of these Credit Events are standard for the 2014 Credit Derivatives Definitions published by the International Swaps and Derivatives Association (“ISDA”), they do not apply to any of the products that LCH SA currently clears. These Credit Events do apply to certain sovereign CDS that are included in the New Products, however, so the proposed rule change would add these Credit Events to accommodate clearing of these products.

For a similar reason, the proposed rule change would amend the term “Transaction Business Day.” Currently, “Transaction Business Day” means a Business Day, as defined in the Index Cleared Transaction Confirmation or the Single Name Cleared Transaction Confirmation,

---

<sup>6</sup> This description is substantially excerpted from the Notice, 87 FR at 55872. Capitalized terms used but not defined herein have the meanings specified in the LCH SA CDS Clearing Rule Book, Clearing Supplement, CDSClear Risk Methodology, CDSClear Default Fund Methodology, or the CDS Clearing Procedures, as applicable.

as applicable. The proposed rule change would add to this definition a qualification. If the relevant Index Cleared Transaction Confirmation or Single Name Cleared Transaction Confirmation defines such term differently depending upon its use, then such distinction shall also apply to the use of the term “Transaction Business Day” in the terms of the cleared transaction. The proposed rule change would add this provision to account for the situation where such confirmations could include different definitions of the term “Business Day” depending on the circumstances. This would apply, for example, when LCH SA clears certain of the New Products related to the iTraxx Asia ex Japan index.

The proposed rule change would amend the definition of “Index Cleared Transaction Confirmation” as well as how LCH SA modifies the Index Cleared Transaction Confirmation when it accepts a transaction for clearing. The Index Cleared Transaction Confirmation is the document that sets out the contractual terms that govern a transaction in an index CDS. The Index Cleared Transaction Confirmation in turn incorporates certain standard terms set out in a document known as a standard terms supplement, and the content of the standard terms supplement varies depending on the type of index involved and the series number of the index.

In LCH SA’s Clearing Supplement, the defined term “Index Cleared Transaction Confirmation” determines which standard terms supplement applies to a transaction based on the index type and series number. For example, for a transaction in Markit iTraxx® Europe Index Series 22 or above, the Index Cleared Transaction Confirmation is the form of confirmation that incorporates the iTraxx® Europe Untranch Standard Terms Supplement. The proposed rule change would amend the definition of “Index Cleared Transaction Confirmation” to accommodate clearing of the iTraxx Asia ex Japan Index and the CDX.EM Index. For transactions in the iTraxx Asia ex Japan Index Series 27 or above, the Index Cleared Transaction Confirmation would be the form of confirmation that incorporates the iTraxx® Asia/Pacific Untranch Standard Terms Supplement. For transactions in the CDX.EM Index Series 27 or

above, the Index Cleared Transaction Confirmation would be the form of confirmation that incorporates the CDX Emerging Markets Untranchured Transactions Standard Terms Supplement.

The Clearing Supplement also modifies the terms of the standard terms supplement in certain minor respects. For example, Section 2.2 of the Clearing Supplement replaces the standard names for parties to the transaction (“Party A” and “Party B”) with “LCH SA” and “Clearing Member.” The proposed rule change would amend Section 2.2 to make it applicable to the clearing of the New Products. The proposed rule change would do so by adding to Section 2.2 references to the iTraxx Asia ex Japan Index and the CDX.EM Index.

The proposed rule change would next amend Section 4. Section 4 applies to certain events that affect the reference entity covered by a CDS, such as a credit event, a succession, or a rename. Section 4.1 prohibits LCH SA and a Clearing Member from sending certain notices during restructurings following such events. Specifically, the proposed rule change would add a “Repudiation/Moratorium Extension Notice” to the types of notices that neither LCH SA nor a clearing member is entitled to deliver with regard to an M(M)R Restructuring in accordance with the terms of any Restructuring Cleared Transaction. While these types of notices do not apply to any of the products that LCH SA currently clears, they do apply to certain sovereign CDS that are included in the New Products. Accordingly, the proposed rule change would add these notices to accommodate clearing of these products.

The proposed rule change also would amend Section 6. Section 6 describes how LCH SA would implement physical settlement, which could apply as a fallback method to certain cleared transactions. Section 6.5 sets out details related to providing notices related to physical settlement. The proposed rule change would add to Section 6.5 a “Package Observable Bond” to the types of asset packages that can be identified in a Notice of Physical Settlement (“NOPS”) or a NOPS Amendment Notice. While the Package Observable Bond does not apply to any of the products that LCH SA currently clears, it does apply to certain sovereign CDS that are included

in the New Products. Accordingly, the proposed rule change would add the Package Observable Bond to Section 6.5 to accommodate clearing of these products.<sup>7</sup>

Finally, and for a similar reason, the proposed rule would add to Section 6.8 a new subsection (c). New Section 6.8(c) would clarify the application of the “60 Business Day Cap on Settlement” under the ISDA 2014 Credit Derivatives Definitions. This provision would be relevant to transactions in the CDX.EM Index. Accordingly, the proposed rule change would add these notices to accommodate clearing of this product.<sup>8</sup>

**B. CDSClear Risk Methodology**

The CDSClear Risk Methodology describes LCH SA’s pricing and margin methodologies for single-name CDS, CDS indices, and CDS Index Options. Section 3.4.5 of the CDSClear Risk Methodology describes portfolio margining, which is a reduction in overall margin that results from a Clearing Member holding offsetting positions in its portfolio. European Union regulations applicable to LCH SA limit how much LCH SA can reduce overall margin due to portfolio margining. There is an exception to this limitation for an index basis package, which is a term that describes a Clearing Member portfolio containing an index and a basket of single-name constituents of the index that perfectly offsets the position in the index. Section 3.4.5 lists various combinations of products that together can constitute an index basis package. The proposed rule change would update this list to include the iTraxx Asia ex Japan Index and its single-name constituents, as well as the CDX.EM Index and its single-name constituents.

---

<sup>7</sup> For the same reason, the proposed rule change would make a similar amendment to Section 5 of Appendix XIII of Part B of the Clearing Supplement. Appendix XIII of Part B of the Clearing Supplement sets out the terms of transactions between a Clearing Member and its Client with respect to client clearing.

<sup>8</sup> For the same reason, the proposed rule change would make a similar amendment to Sections 7.8 and 7.18 of Appendix XIII of Part B of the Clearing Supplement. Appendix XIII of Part B of the Clearing Supplement sets out the terms of transactions between a Clearing Member and its Client with respect to client clearing.

Section 3.5 of the CDSClear Risk Methodology describes the Short Charge aspect of margin. The Short Charge covers the cost of liquidating a defaulting Clearing Member's portfolio where one or more of the reference entities in the portfolio has gone into default. Section 3.5 begins with a general description of the Short Charge and notes that in determining the Short Charge, LCH SA considers the worst consecutive defaults within the applicable holding periods for all eligible products across Europe and the US. The proposed rule change would add "Asia", in addition to Europe and the US, to account for the iTraxx Asia ex Japan Index and related single-name constituents.

As part of the Short Charge, LCH SA considers the recovery rate, which is used to calculate an estimate of the amount that could be recovered in a default. Section 3.5.1 lists recovery rates for categories of reference entities, like insurers and banks. The proposed rule change would add a recovery rate for state-owned enterprises. This change would account for the additional sovereign single names that LCH SA will clear as part of the new products. Relatedly, the proposed rule change would add a new Section 3.5.2<sup>9</sup> to explain how LCH SA would treat a Clearing Member's positions in a state-owned enterprise and its sovereign entity. If those positions are not risk reducing, and the sovereign entity owns more than 50% of the state-owned enterprise, then LCH SA would default the two entities jointly. New Section 3.5.2 also would explain that LCH SA would calculate exposures for state-owned enterprises with a fixed 70% recovery rate.

Section 3.8 of the CDSClear Risk Methodology describes the Wrong Way Risk aspect of margin. Wrong Way Risk accounts for the risk that exposure to a given counterparty increases when that counterparty defaults. This could occur, for example, when a Clearing Member sells

---

<sup>9</sup> LCH would move the contents of current Section 3.5.2 to a new Section 3.5.3.

protection on a CDS index of which it is a constituent. LCH SA calculates Wrong Way Risk by, among other things, considering the risk in certain geographic regions because historical data shows correlations among defaults in these regions. The proposed rule change would expand these regions to include Asia, to account for the iTraxx Asia ex Japan Index and related single-name constituents.

Section 4.1 of the CDSClear Risk Methodology describes the Liquidity and Concentration Charge aspect of margin. The Liquidity and Concentration Charge covers the cost of liquidating a defaulting Clearing Member's portfolio that contains a very concentrated or illiquid position. To estimate this cost, LCH SA mimics the liquidation procedure used in its default management process. The first step in this process is to macro-hedge a portfolio to reduce the impact of market risk. As part of the macro-hedge, LCH SA divides portfolios into separate indices and their components. Section 4.1.2 lists these different indices, which are the indices that LCH SA clears. Thus, the proposed rule change would add to this list in Section 4.1.2 the iTraxx Asia ex Japan Index and CDX.EM Index. Moreover, the proposed rule change would move from Section 4.1.2 to Section 4.1.1 language to note that the liquidation cost of a sub-portfolio composed of a single year position in the principal on the run index is simply the sum of the macro hedging costs, and add to Section 4.1.1 a note that single names without a parent index are considered a sub-portfolio for which LCH SA charges the cost of unwinding a non-hedged sub-portfolio.

Finally, in Section 4.1.7 the proposed rule change would make certain updates related to clearing the New Products. Specifically, the proposed rule change would update the existing thresholds and include more cleared indexes in the table for volume thresholds. The proposed rule change also would add a dedicated liquidity grid for sovereign single names.



### C. CDSClear Default Fund Methodology

The CDSClear Default Fund Methodology describes how, during extreme but plausible circumstances, LCH ensures its financial resources are enough to cover the potential losses from a close-out of the largest two groups of members' portfolios and all clients of both of these groups of members. Section 2 of the CDSClear Default Fund Methodology describes the stress-testing framework that LCH SA uses to assess the potential impact of the default of one or more clearing members under stressed market conditions in excess of the initial margin that LCH SA has collected for those clearing members. This stress testing aims to identify a total stress test loss over initial margin under extreme but plausible scenarios. Section 2.2 provides an overview of how LCH treats single-name CDS and CDS indices in these extreme but plausible scenarios. The proposed rule change would amend this description to include the iTraxx Asia ex Japan Index and CDX.EM Index, as well as the iTraxx Australia Indices.<sup>10</sup>

Moreover, one component of the stress test loss over initial margin is the stressed short charge, which considers the jump to default risk under stress conditions. With respect to the sovereign single names that LCH SA will clear, the proposed rule change would amend Sections 2.4.1 and 2.4.2 to describe how LCH SA would add State-Owned Entities' exposures to the stressed short charge. The proposed rule change also would amend Sections 2.4.3 and 2.7.2 to describe the same with mathematical formulas instead of with plain text.

---

<sup>10</sup> Although LCH SA added clearing of the iTraxx Australia Indices in a prior rule change, that prior rule change did not add the iTraxx Australia Indices to this description. Thus, the proposed rule change would correct this error and add the iTraxx Australia Indices to Section 2.2. See Notice, 87 FR at 55874; Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating to the Clearing of Markit iTraxx® Australia Indices and the Associated Single-Name Constituents and Remediation of WWR Margin Instability, Exchange Act Release No. 95503 (Aug. 16, 2022), 87 FR 51471 (Aug. 22, 2022) (SR-LCH SA-2022-004).

Finally, in Section 2.6, which discusses how LCH SA treats index options in default scenarios, the proposed rule change would add a description of how LCH SA would consider the stressed short charge for sovereigns.

D. Unrelated Changes

Unrelated to clearing the New Products, the proposed rule change would make two other amendments to the Clearing Supplement. First, the proposed rule change would modify Section 2.2 to provide an additional term for each Index Cleared Transaction Confirmation. This new term would specify that the applicable Physical Settlement Matrix is the version of the Physical Settlement Matrix that is in force on the Clearing Day on which the Index Cleared Transaction is registered by LCH SA. LCH explains that this amendment would ensure that the Additional Provisions for Certain Russian Entities published by ISDA on March 25, 2022 will apply to the relevant cleared trades.<sup>11</sup>

Next, the proposed rule change would make a correction in Section 7 of Appendix XIII of Part B of the Clearing Supplement. Appendix XIII of Part B sets out the terms of transactions between a Clearing Member and its Client. The proposed rule change would remove from Section 7.15 and Section 7.17 of Appendix XIII the phrase “for the purposes of the Matched Contracts of the related Settlement Matched Pair.” This phrase is applicable to transactions between LCH SA and a Clearing Member. Because Appendix XIII applies to transactions between a Clearing Member and its Client, this phrase is unnecessary.

---

<sup>11</sup> See Notice, 87 FR at 55873. For additional detail on these provisions and how compliance with them would facilitate the clearance of transactions in CDS contracts (or components thereof) for which the Russian Federation is a reference entity, see Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Relating to the ICC Clearing Rules, Exchange Act Release No. 94784 (Apr. 22, 2022), 87 FR 25324 (Apr. 28, 2022) (SR-ICC-2022-005).

Finally, the proposed rule change would make a correction to Section 2.7 of the CDS Clearing Procedures. Specifically, the first sentence of Section 2.7(c) currently states that, where a Clearing Member is acting as a CDS Seller, Short Charge Margin will be required to cover the risk that the Clearing Member is subject to an event of default at the same time that a credit event occurs “with respect to a Reference Entity.” To acknowledge that a credit event may occur with respect to more than one Reference Entity, the proposed rule change would revise this sentence to read “one or more Reference Entities.”

### III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.<sup>12</sup> Based on its review of the record, including the supporting information provided in Confidential Exhibit 3, and for the reasons given below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act<sup>13</sup> and Rules 17Ad-22(e)(4)(ii) and 17Ad-22(e)(6)(i).<sup>14</sup>

#### A. Consistency with Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of LCH SA be designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions.<sup>15</sup>

---

<sup>12</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>13</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>14</sup> 17 CFR 240.17Ad-22(e)(4)(ii) and 17Ad-22(e)(6)(i).

<sup>15</sup> 15 U.S.C. 78q-1(b)(3)(F).

Based on its review of the record, including the supporting information provided in Confidential Exhibit 3, and for the reasons discussed below, the Commission believes the proposed changes are consistent with the promotion of the prompt and accurate clearance and settlement of securities transactions at LCH SA.

As discussed above, the proposed rule change would amend the Clearing Supplement, the CDSClear Risk Methodology, and the CDSClear Default Fund Methodology to accommodate clearing of the New Products. For example, the proposed rule change would amend the Clearing Supplement to, among other things, introduce new defined terms and revise the Index Cleared Transaction Confirmation to accommodate clearing of the New Products. The proposed rule change also would amend the CDSClear Risk Methodology and the CDSClear Default Fund Methodology to consider the New Products in calculating certain components of margin and in calculating the stress test loss over initial margin. The Commission believes that the amendments to the Clearing Supplement would help to ensure that LCH SA has in place rules to appropriately govern the clearing of the New Products. The Commission also believes that the amendments to the CDSClear Risk Methodology and the CDSClear Default Fund Methodology would help to ensure that LCH SA's risk management system considers the risks of clearing the New Products. The Commission believes that these changes, taken together in consideration with the supporting information provided in Confidential Exhibit 3, would promote the prompt and accurate clearance and settlement of transactions in the New Products at LCH SA.

The Commission similarly believes that the unrelated changes discussed in Part II.D above would promote the prompt and accurate clearance and settlement of transactions at LCH SA. Specifically, the Commission believes specifying that the Physical Settlement Matrix is the version in force on the Clearing Day on which the Index Cleared Transaction is registered would help to ensure the application of the Additional Provisions for Certain Russian Entities published by ISDA on March 25, 2022. In doing so, the Commission believes this change would help

facilitate LCH SA's clearance and settlement of transactions to which these additional provisions would apply.<sup>16</sup> Moreover, the Commission believes that removing an inapplicable phrase from Appendix XIII of Part B of the Clearing Supplement would correct a potential error that could hinder the consistent application of Appendix XIII to cleared transactions. Finally, the Commission believes that correcting "Reference Entity" to "Reference Entities" in Section 2 of the CDS Clearing Procedures would help to ensure that LCH SA applies Section 2 to multiple Reference Entities, as intended, should ever a credit event occur for more than one Reference Entity.

Therefore, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.<sup>17</sup>

B. Consistency with Rule 17Ad-22(e)(4)(ii)

Rule 17Ad-22(e)(4)(ii) requires that LCH SA establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain, to the extent not already maintained pursuant to Rule 17Ad-22(e)(4)(i),<sup>18</sup> additional financial resources at the minimum to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the two participant families that would potentially cause the largest aggregate credit exposure for LCH SA in extreme but plausible market conditions.<sup>19</sup>

---

<sup>16</sup> For additional detail on these provisions and how compliance with them would facilitate the clearance of transactions in CDS contracts (or components thereof) for which the Russian Federation is a reference entity, see Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Relating to the ICC Clearing Rules, Exchange Act Release No. 94784 (Apr. 22, 2022), 87 FR 25324 (Apr. 28, 2022) (SR-ICC-2022-005).

<sup>17</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>18</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>19</sup> 17 CFR 240.17Ad-22(e)(4)(ii).

As discussed above, the proposed rule change would amend the CDSClear Default Fund Methodology to accommodate clearing of the New Products. Among other things, these changes would revise the description of the stress scenarios and of the calculation of stress test loss over initial margin to consider the New Products. LCH SA sizes its default fund to cover the highest two exposures arising from the stress test loss over initial margin calculation under extreme but plausible stress scenarios. Considering the New Products in these calculations would help to ensure that LCH SA, while clearing the New Products, continues to maintain financial resources to cover the default of the two participant families that would potentially cause the largest aggregate credit exposure for LCH SA in extreme but plausible market conditions.

Therefore, the Commission finds that this aspect of the proposed rule change is consistent with Rule 17Ad-22(e)(4)(ii).<sup>20</sup>

C. Consistency with Rule 17Ad-22(e)(6)(i)

Rule 17Ad-22(e)(6)(i) requires that LCH SA establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.<sup>21</sup>

As discussed above, the proposed rule change would amend the CDSClear Risk Methodology to accommodate clearing of the New Products. These changes would revise the descriptions of the Short Charge, Wrong Way Risk, and Liquidity and Concentration Charge to cover clearing of the New Products. Because LCH SA uses the Short Charge, Wrong Way Risk,

---

<sup>20</sup> 17 CFR 240.17Ad-22(e)(4)(ii).

<sup>21</sup> 17 CFR 240.17Ad-22(e)(6)(i).

and Liquidity and Concentration Charge to calculate initial margin along with the other components discussed in the CDSClear Risk Methodology, and based on the Commission's review of the proposed rule change, including the supporting information provided in Confidential Exhibit 3, the Commission believes these changes will help to ensure that LCH SA's margin system identifies the risks of clearing the New Products.

Therefore, the Commission finds that these aspects of the proposed rule change are consistent with Rule 17Ad-22(e)(6)(i).<sup>22</sup>

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as modified by Amendment No. 2, is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-LCH SA-2022-007 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-LCH SA-2022-007. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the

---

<sup>22</sup> 17 CFR 240.17Ad-22(e)(6)(i).

submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission’s Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10:00 am and 3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of LCH SA and on LCH SA’s website at: <https://www.lch.com/resources/rulebooks/proposed-rule-changes>. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-LCH SA-2022-007 and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

V. Accelerated Approval of the Proposed Rule Change, as Modified by Amendment No. 2

Under Section 19(b)(2)(C)(iii) of the Act,<sup>23</sup> the Commission may grant accelerated approval of a proposed rule change if the Commission finds good cause for doing so. For the reasons discussed below, the Commission finds good cause, pursuant to Section 19(b)(2)(C)(iii) of the Act,<sup>24</sup> for approving the proposed rule change on an accelerated basis prior to the 30th day after the date of publication of notice of Amendment No. 2 in the *Federal Register*.

---

<sup>23</sup> 15 U.S.C. 78s(b)(2)(C)(iii).

<sup>24</sup> 15 U.S.C. 78s(b)(2)(C)(iii).



Amendment No. 2, which replaced and superseded in their entirety both the original filing and Amendment No. 1, does not substantively alter the proposed rule change. Rather, it corrects a non-substantive formatting error and includes as Confidential Exhibit 3 certain information that LCH SA submitted to the Commission in support of the proposed rule change. By correcting a non-substantive formatting error in the Confidential Exhibit 5C, Amendment No. 2 should help to ensure that the LCH SA Methodology Services Reference Guide: CDS Margin Framework (V3.14) is accurate, free from error, and therefore can be used and applied consistently by LCH SA personnel. Because LCH SA uses its CDS Margin Framework in clearing transactions, the Commission believes correcting this error would be consistent with the prompt and accurate clearance and settlement of transactions.

Moreover, as noted above, Amendment No. 2 includes Confidential Exhibit 3, which reproduces certain information that LCH SA submitted to the Commission in support of the proposed rule change. The Commission considered this information as part of its review of the record for the proposed rule change and believes this information supports the findings discussed in Part III above. The Commission therefore believes that amending the proposed rule change to include Confidential Exhibit 3 would be consistent with its findings discussed above.

The Commission therefore finds good cause, pursuant to Section 19(b)(2)(C)(iii) of the Act,<sup>25</sup> for approving the proposed rule change on an accelerated basis prior to the 30th day after the date of publication of notice of Amendment No. 2 in the *Federal Register*.

## VI. Conclusion

---

<sup>25</sup> 15 U.S.C. 78s(b)(2)(C)(iii).

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A(b)(3)(F) of the Act<sup>26</sup> and Rules 17Ad-22(e)(4)(ii) and 17Ad-22(e)(6)(i).<sup>27</sup>

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act<sup>28</sup> that the proposed rule change, as modified by Amendment No. 2 (SR-LCH SA-2022-007), be, and hereby is, approved.<sup>29</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>30</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

[FR Doc. 2022-27052 Filed: 12/13/2022 8:45 am; Publication Date: 12/14/2022]

---

<sup>26</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>27</sup> 17 CFR 240.17Ad-22(e)(4)(ii) and (e)(6)(i).

<sup>28</sup> 15 U.S.C. 78s(b)(2).

<sup>29</sup> In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>30</sup> 17 CFR 200.30-3(a)(12).